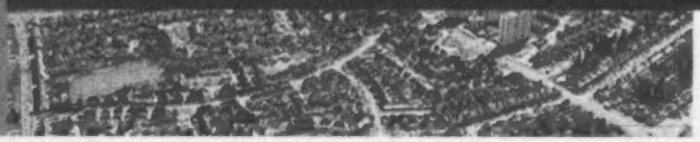
HOUSING MARKET INFORMATION

# HOUSING MARKET OUTLOOK

## Halifax CMA



Canada Mortgage and Housing Corporation

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## New Home Market

### Demand For Multi-Residential Continues

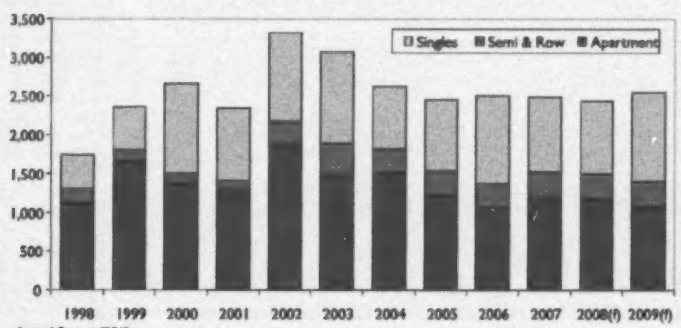
The overall pace of residential construction activity across metro Halifax is expected to ease slightly this year, before picking up again in 2009 to reach its highest level since 2004. Despite the fact that softening demand for traditional single-detached homes is expected to continue, anticipated strong growth in multi-unit construction will keep the homebuilding sector busy over the next two years.

Total housing starts are expected to dip this year to 2,450, which is a decline of 1.6 per cent compared to last year. In 2009, starts are expected to increase by four per cent with 2,550 units forecast to break ground. This would be the highest level of starts in Metro Halifax since 2004. Total housing starts over the next two years will be supported by multi-residential construction as the subdued demand for singles is expected to continue, with 1,175 singles expected to start this year and 1,075 expected to start in 2009.

Figure 1

**Overall Housing Starts to Stabilize**

Annual housing starts by type of structure, Halifax CMA




Source & Forecast: CMHC

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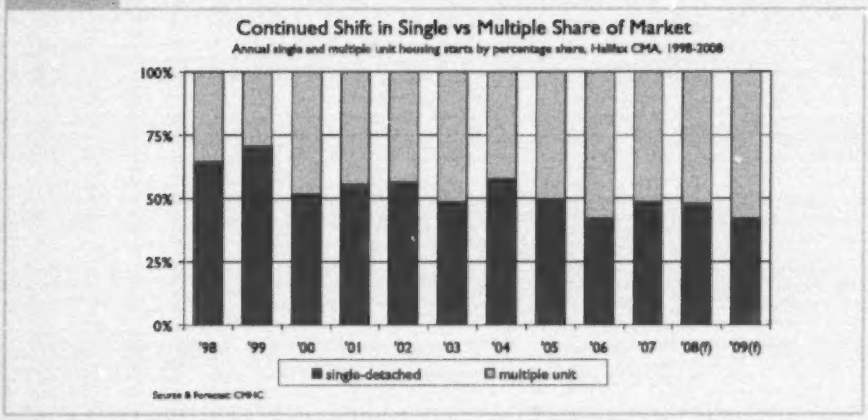
Figure 2



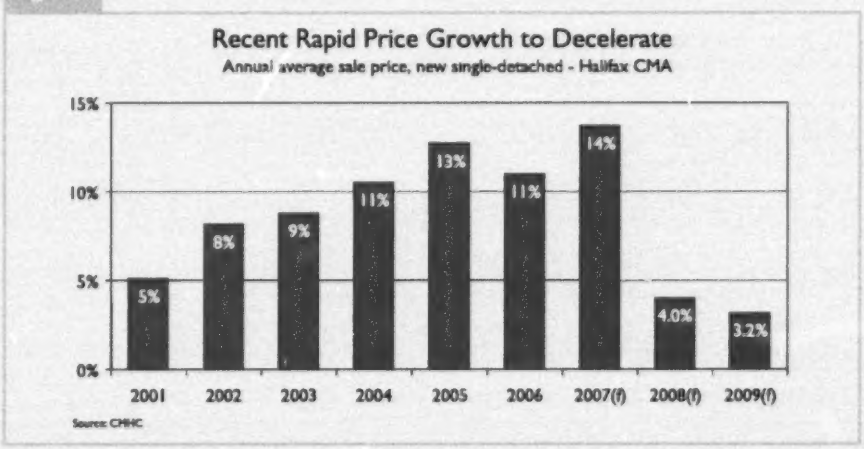

This will represent an annual decline in single starts of 2.7 and 8.5 per cent respectively and will fall well below the ten-year annual average of 1,380. Multiple starts, on the other hand, are expected to remain flat this year with 1,275 units expected to begin compared to 1,282 last year; however, in 2009, multiple starts are expected to increase by 16 per cent with footings for 1,475 units expected to be in place by the end of the year.

The decline in demand for singles can be attributed primarily to three things: Changing demographics, rising costs and competition from the existing homes market. From a demographic perspective, households are getting smaller which translates into less of a need for large, single-family homes. According to 2006 Census data, the two fastest growing demographics in Nova Scotia are couples without children and one person households. The rising cost of new construction is also a factor affecting demand for new single-detached homes. The average price for an absorbed single-detached unit in Halifax in 2007 was $332,821, which is an increase of almost 14 per cent compared to 2006. Comparatively, the average resale price for an existing home in Metro Halifax was $215,645 in 2007, which was only a seven per cent increase compared to 2006. Due to the softened demand, the high rate of price growth for new single-detached homes is expected to slow this year to four per cent with average prices reaching $346,000. In 2009, average prices are expected to increase by only 3.2 per cent, climbing to $357,000 in Metro Halifax.

As such, the new homes market will continue to face stiff competition from the existing homes market as the lure of mature neighborhoods and affordable prices continues to offer homebuyers an attractive alternative. However, the upside risk to the single starts forecast, ironically, stems from the recent growth in the existing homes market. Following a year of record sales in Metro Halifax, the inventory of existing homes may be getting thin, making the new homes market more desirable for new homeowners. Single starts after the first quarter of 2008 are up 45 per cent compared to last year.

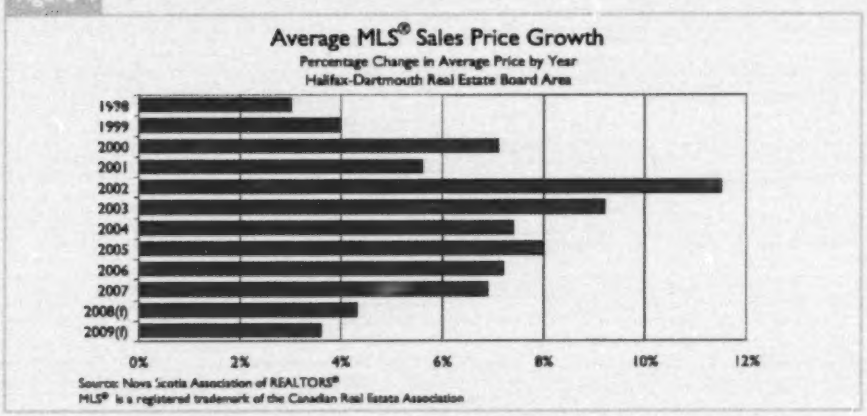
In the multi-residential construction market, there are a number of factors at play contributing to the increase in demand including changing demographics and increased homeownership costs. A demographic shift to smaller households is considered the leading cause as the rate of household formation is outpacing population growth in Metro Halifax. This trend is expected to continue into the foreseeable future as one and two person households are the fastest growing segment of the market. Apartment or condo living are attractive options for people of all ages. Single people and young couples may opt to rent or buy a condo, either for affordability

Figure 3



reasons or for lifestyle choice, as many multi-unit structures are conveniently located close to shopping and entertainment amenities. Seniors and empty nesters enjoy the convenience of maintenance and care-free living that apartments or condos offer, in addition to being close to entertainment and health care services.

Figure 4




## Resale Market

### Existing Home Sales will Slow

Existing home sales will be down considerably this year and next compared to the record setting pace of 2007. Expect to see MLS® sales dip below 6,500 in 2008 and with a slightly smaller decline forecast for 2009. Declines will be in excess of 6.5 per cent in 2008. Downside risk to the forecast could result in declines of over 8 per cent. In 2009, existing home sales will decline further to approximately 6,200 to 6,300 sales.

Putting this in perspective, 2007 was a record year for MLS® sales shattering all previous records in Halifax. The figures expected for 2008 and 2009 will be below the record set in 2007 but activity will remain relatively high close to previous record levels.

Some of the downside risks to the forecast relate to financial uncertainty in the North American economy and the potential negative impacts on employment, wages and consumer confidence. In 2007, the labour market tightened due to high demand for labour, wages rose accordingly and consumer confidence went up. All of these factors were very supportive of existing home sales in 2007. Over the forecast period however, expect these factors to not have as significant an influence on the market resulting in more sluggish demand for existing homes.

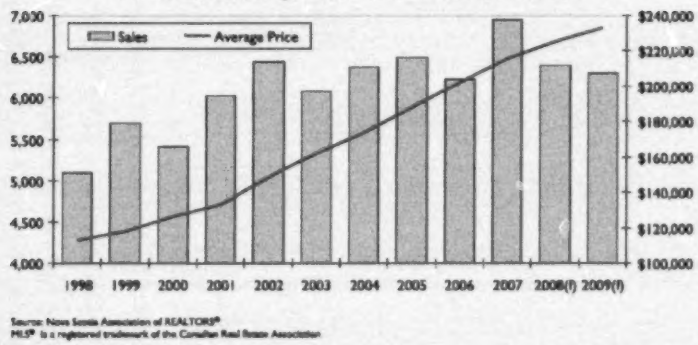
Sales in the first quarter of 2008 were down 15 per cent compared to 2007 due in part to some very severe weather conditions but also due to weaker inventory for existing homes and concerns related to the overall volatility in the economy. Last year saw record levels of sales volumes in Halifax, but listings did not keep pace. The result has been a reduced and weakened inventory over the first quarter of 2008. This tightened inventory situation has resulted in high price growth in both 2007 and in the first quarter of 2008. The situation is now beginning to balance itself as new listings began to pick up late in the first quarter. This will allow for some additional choice for potential buyers.

At the time of writing, seasonally adjusted active MLS® listings of single family homes reached a 15 month high of approximately 3,500. Based on forecasted sales, there currently is an average of 6.5 months of existing home inventory. This compares to about five months throughout 2007.

The average selling price of an existing home will continue to grow faster than inflation increasing by approximately four per cent per year in both 2008 and 2009. The average price in 2007 was just under $216,000. Prices will grow to approximately $225,000 in 2008 and $233,000 in 2009. Some elevated inventory levels will ease some of the pressure on prices as the forecasted growth is well below the seven to eight per cent annual growth seen over the better part of the past decade.

The existing homes market has been benefiting from reduced competition from the new homes market. The average price for an existing home will remain approximately 30 per cent below the average price for a new home. However, if inventory levels weaken, buyers may be unable to find a suitable existing home and instead have to look at new construction.

Figure 5




# Rental Market

## Vacancy Rates to Rise in Short Term

Increased supply in rental apartments will contribute to increased vacancy rates in 2008 and 2009. Demand for rental apartments will continue to be strong, but will be unable to keep up with supply in the short term. Expect vacancy rates to rise from 3.1 per cent to 3.5 per cent in 2008 stabilizing at around 3.4 per cent in 2009.

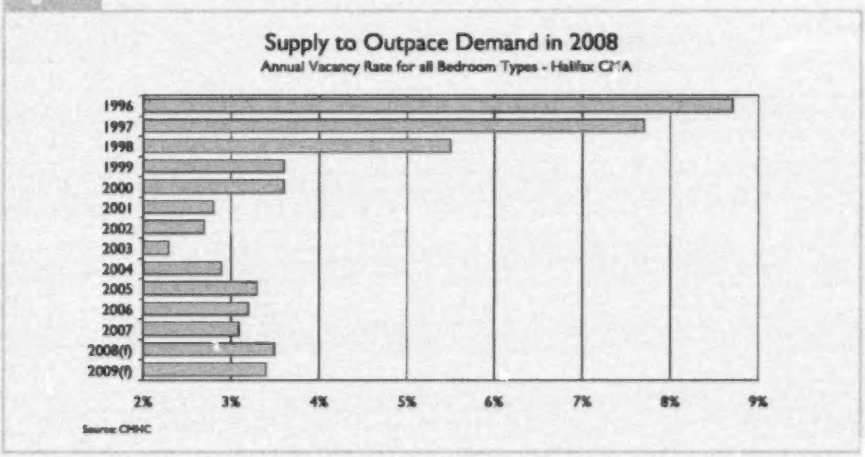
Given the large number of rental starts over the past couple of years, the number of completions will outpace the number of starts over the forecast period. After various project delays in 2007 due in part to the inability to meet labour demands, the first quarter of 2008 has already seen several rental projects complete construction. Nearly 300 apartments have been added to the market during the first three months of 2008 and as many as 700 more new units could be added this year. While this will put upward pressure on vacancy rates in the short to medium term, it is expected that demand will begin to catch up in 2009 and reduce some of the pressure on vacancy rates.

In Halifax, rental units remain relatively affordable and demographic factors remain supportive of the rental market. Demand for rental units remains high and as supply increases demand is expected to almost keep pace. Single-person households and two-person households are the fastest growing forms of household formation in Halifax. With higher numbers of smaller households the demand for smaller homes and apartments increases. Also, youth migration continues to be the single largest source of migrants to Halifax and 18 to 24 year olds have a much higher tendency to rent.

The recent strength in employment and wage growth has also been supportive of household formation and demand for rental units. Even a downward turn in the economy should keep demand for rental units high as rental units compete very well against the rising costs of condos and single-family homes.

In 2008, the average rent for a two-bedroom apartment in Halifax will average approximately $840, which is a three per cent increase over 2007. Rents in new and higher end buildings continue to rise at a faster pace, however, with the vacancy rate inching upward, overall rent increases will be kept to a minimum as landlords look to attract new tenants and retain the ones they have, despite the need to increase rents due to rising costs.

Figure 6



# Economic Overview

## Diverse Economy Supportive of Housing Market

Employment levels were fairly stable in 2007 recording growth of approximately two per cent. Average weekly earnings increased over five per cent which is more than twice the rate of inflation. High demands for labour coupled with slower growth in the labour force resulted in a tighter labour market and rapid wage growth. With incomes rising faster than inflation, consumer confidence levels were elevated in 2007 as well. In particular, the local construction market saw record levels of units under construction in 2007 putting pressure on the local labour markets and contributing to recent wage growth.

As the local and national economies begin to take notice of the US economy's fluctuations, local sentiment is starting to shift. While consumer confidence levels remain higher than last year, the first quarter of 2008 has seen a declining pattern. Respondents tend to believe they are better off now than they were six months ago, but fewer believe they will be better off in six months than they are now. In spite of these changing sentiments the impact of recent wage growth will be positive for the Halifax housing market.

Employment levels will continue to remain near or above record levels in the near term. The unemployment rate reached a record low of 4.5 per cent midway through the first quarter but the rate is likely to stabilize near the five per cent mark over the forecast period.

The diversity of the local economy will continue to offer support and shelter during times of economic uncertainty. While certain parts of the manufacturing sector are moving or shutting down operations in response to rising costs and the high dollar, other companies in the sector are growing or setting up shop in Halifax. Employment figures indicate that the manufacturing sector currently is one of the fastest growing in Halifax.

Other sectors including retail, finance and technology-based companies continue to expand to Halifax offsetting most of the job losses in manufacturing and customer service centres.

Demand for commercial real estate is very high in Halifax with the vacancy rate dipping below five per cent, is indicative of the overall economic activity in the city.

The Port of Halifax has been challenged as China Shipping and Caterpillar Inc. announced decisions to no longer ship products in and out of the port. However, engineering firms in the city have been benefiting from large aerospace and marine-based projects. Overall the economy is fairly well-diversified and will continue to grow.

Recent wage growth and the various employment opportunities have made Halifax attractive and this has boosted migration. Provincial migration improved in each of the last three quarters of 2007. Over that time period net migration increased nearly 2,000 across the province.

The average five-year residential mortgage lending rate increased nearly a full percentage point in 2007 from 5.9 per cent to 6.8 per cent over the course of the year. Going forward, it is expected that the rate will be slightly in excess of seven per cent in 2008 and 2009. In spite of higher posted rates, discounting remains very prevalent and continues to allow buyers to find closed, five-year mortgages below six per cent. Borrowing rates in this range will continue to be supportive of the housing market in Halifax.

Recent census data indicates that single-person households and couples-without-children are the two fastest growing forms of households. Smaller households mean more households even without any population growth. Combining this propensity towards smaller households with rising wages and employment opportunities and the overall demand for housing will continue to remain strong.

| Forecast Summary<br>Halifax CMA<br>Spring 2008 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008f | % chg | 2009f | % chg |
| **Resale Market** | | | | | | | |
| MLS® Sales | 6,496 | 6,239 | 6,938 | 6,500 | -6.3 | 6,400 | -1.5 |
| MLS® New Listings | 10,480 | 10,701 | 10,247 | 10,400 | 1.5 | 10,500 | 1.0 |
| MLS® Average Price ($) | 188,115 | 201,830 | 215,018 | 225,000 | 4.6 | 233,000 | 3.6 |
| **New Home Market** | | | | | | | |
| **Starts:** | | | | | | | |
| Single-Detached | 1,216 | 1,056 | 1,207 | 1,175 | -2.7 | 1,075 | -8.5 |
| Multiples | 1,235 | 1,455 | 1,282 | 1,275 | -0.5 | 1,475 | 15.7 |
| Semi-Detached | 146 | 154 | 166 | 175 | 5.4 | 175 | 0.0 |
| Row/Townhouse | 169 | 154 | 147 | 150 | 2.0 | 150 | 0.0 |
| Apartments | 920 | 1,147 | 969 | 950 | -2.0 | 1,150 | 21.1 |
| Starts - Total | 2,451 | 2,511 | 2,489 | 2,450 | -1.6 | 2,550 | 4.1 |
| **Average Price ($):** | | | | | | | |
| Single-Detached | 263,663 | 292,665 | 332,821 | 346,000 | 4.0 | 357,000 | 3.2 |
| **Median Price ($):** | | | | | | | |
| Single-Detached | 235,900 | 267,000 | 305,000 | 305,000 | 0.0 | 312,000 | 2.3 |
| New Housing Price Index (% chg.) | 2.8 | 4.3 | 5.8 | 5.5 | - | 3.0 | - |
| **Rental Market** | | | | | | | |
| October Vacancy Rate (%) | 3.3 | 3.2 | 3.1 | 3.5 | 0.4 | 3.4 | -0.1 |
| Two-bedroom Average Rent (October) ($) | 762 | 799 | 815 | 840 | - | 860 | - |
| **Economic Overview** | | | | | | | |
| Mortgage Rate (1 year) (%) | 5.80 | 6.30 | 7.35 | 6.95 | -0.40 | 6.83 | -0.12 |
| Mortgage Rate (5 year) (%) | 6.30 | 6.45 | 7.54 | 7.01 | -0.53 | 6.97 | -0.04 |
| Annual Employment Level | 202,500 | 204,800 | 208,400 | 208,000 | -0.2 | 211,000 | 1.4 |
| Employment Growth (%) | 0.1 | 1.1 | 1.8 | 1.6 | -0.2 | 1.4 | -0.2 |
| Unemployment rate (%) | 5.8 | 5.0 | 5.2 | 5.2 | - | 5.0 | - |
| Net Migration [1] | 1,527 | 1,104 | 1,500 | 1,200 | -20.0 | 900 | -25.0 |

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Nova Scotia Association of Realtors, Statistics Canada (CANSIM)

**NOTE**: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is forecasted

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